

TOWN OF SHIRLEY, MASSACHUSETTS

Financial Statements

June 30, 2016

(With Accountants' Report Thereon)

Town of Shirley, Massachusetts

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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS –
TOWN OF SHIRLEY

Board of Selectmen
Town of Shirley
7 Keady Way
Shirley, MA 01464

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Shirley, Massachusetts as of and for the year ended June 30, 2016, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Shirley, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Shirley, Massachusetts as of June 30, 2016 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary statement, the retirement system schedules and the other post employment benefit schedules listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated May 12, 2017, on our consideration of the Town of Shirley, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Shirley, Massachusetts' internal control over financial reporting and compliance.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
May 12, 2017

Town of Shirley, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2016

As management of the Town of Shirley, Massachusetts, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Town of Shirley, Massachusetts for the fiscal year ended June 30, 2016.

Financial Highlights

- The assets of the Town of Shirley, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$31,982,430 (*net position*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,767,078, or 13.33% of the general fund expenditures.
- The Town of Shirley, Massachusetts' total long term debt decreased by \$1,359,688 or 14.6% during the current year. The change is attributed the governmental activities (\$425,547, or 13.0%) and in the business-type Activities (\$934,141 or 15.5%). The decrease in long term debt is entirely due to principal payments made during the year.

Overview of the Financial Statements

The discussion and analyses are intended to serve as an introduction of the Town of Shirley, Massachusetts' basic financial statements. The Town of Shirley, Massachusetts' basic financial statements consists of the following: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Shirley, Massachusetts' finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all of the Town of Shirley, Massachusetts' assets/deferred outflows and liabilities/deferred inflows, with the differences between the two reported as *Net Position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town of Shirley, Massachusetts is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise of the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements have separate columns for governmental activities and business-type activities. The Town's activities are classified as follows:

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.
- **Business-Type Activities** - Activities reported here are for sewer, trash collection and ambulance operations. User fees charged to the customers receiving services finance these activities.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Shirley, Massachusetts, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Shirley, Massachusetts can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds. The Town of Shirley, Massachusetts maintains three proprietary (enterprise) fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Shirley, Massachusetts uses enterprise funds to account for its sewer, trash collection and ambulance operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The sewer fund is considered to be a major fund of the Town of Shirley, Massachusetts.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town maintains fiduciary funds to account for activities related to charitable trust funds and the other post-employment benefits trust fund.

Notes to the Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Town of Shirley, Massachusetts' progress in funding its obligation to provide pension and OPEB benefits to its employees. The *required supplementary information* also includes budget versus actual information.

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Capital assets and long-term liabilities are not included on the balance sheet of the governmental funds, but are included on the statement of net position. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements. We have included schedules that provide a crosswalk from the government-wide financial statements to

the governmental funds of the fund financial statements:

- Reconciliation of the governmental funds balance sheet total fund balances to the statement of net position.
- Reconciliation of the statement of revenues and expenditures and changes in fund balance of governmental funds to the statement of activities.

The reconciliation of government-wide financial statements to enterprise funds of the fund financial statements is not necessary. The business-type activities of the government-wide financial statements and the enterprise funds in the fund financial statements use the same accounting basis and measurement focus.

Financial Analysis of the Government-Wide Financial Statements

Net Position

Net position may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed net position for the past two fiscal years.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and Other Assets	\$ 6,174,868	\$ 6,125,309	\$ 9,088,957	\$ 9,728,996	\$ 15,263,825	\$ 15,854,305
Capital Assets	24,225,555	25,056,001	12,318,101	12,488,091	36,543,656	37,544,092
Total Assets	<u>30,400,423</u>	<u>31,181,310</u>	<u>21,407,058</u>	<u>22,217,087</u>	<u>51,807,481</u>	<u>53,398,397</u>
Deferred Outflows of Resources	<u>460,600</u>	<u>28,267</u>	<u>9,880</u>	<u>606</u>	<u>470,480</u>	<u>28,873</u>
Current Liabilities	1,556,170	1,476,662	971,142	940,677	2,527,312	2,417,339
Long Term Liabilities	13,315,027	13,048,578	4,409,111	5,348,799	17,724,138	18,397,377
Total Liabilities	<u>14,871,197</u>	<u>14,525,240</u>	<u>5,380,253</u>	<u>6,289,476</u>	<u>20,251,450</u>	<u>20,814,716</u>
Deferred Inflows of Resources	<u>43,351</u>	<u>4,936</u>	<u>730</u>	<u>-</u>	<u>44,081</u>	<u>4,936</u>
Net Position:						
Net Investment in Capital Assets	20,991,506	21,405,883	7,209,929	6,445,778	28,201,435	27,851,661
Restricted	1,736,068	1,576,760	-	8,209,802	1,736,068	9,786,562
Unrestricted	(6,781,099)	(6,303,242)	8,826,026	1,272,637	2,044,927	(5,030,605)
Total Net Position	<u>\$ 15,946,475</u>	<u>\$ 16,679,401</u>	<u>\$ 16,035,955</u>	<u>\$ 15,928,217</u>	<u>\$ 31,982,430</u>	<u>\$ 32,607,618</u>

The net position of the Town decreased by \$625,188 or 1.9%. The net position of the governmental activities decreased by \$732,926 or 4.4% and the net position of the business-type activities increased by \$107,738 or 0.68%.

Changes in Net Position

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the Town's net position has changed during the past two fiscal years.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 911,764	\$ 708,200	\$ 1,021,089	\$ 983,811	\$ 1,932,853	\$ 1,692,011
Operating Grants and Contributions	655,252	720,204	559,907	411,065	1,215,159	1,131,269
Capital Grants and Contributions	-	191,800	-	32,375	-	224,175
General Revenues:						
Property Taxes	9,958,224	9,712,883	-	-	9,958,224	9,712,883
Motor Vehicle and Other Excises	861,872	776,796	-	-	861,872	776,796
Intergovernmental Not Restricted to a Specific Program	1,578,016	1,251,040	-	-	1,578,016	1,251,040
Other	196,733	288,540	7,000	-	203,733	288,540
Total Revenues	14,161,861	13,649,463	1,587,996	1,427,251	15,749,857	15,076,714
Expenses						
General Government	1,641,971	1,449,005	-	-	1,641,971	1,449,005
Public Safety	1,798,660	1,562,963	-	-	1,798,660	1,562,963
Education	7,921,912	7,262,191	-	-	7,921,912	7,262,191
Highways and Public Works	821,290	917,027	-	-	821,290	917,027
Human Services	207,251	204,669	-	-	207,251	204,669
Culture and Recreation	553,718	583,168	-	-	553,718	583,168
Fringe Benefits	1,708,741	1,597,613	-	-	1,708,741	1,597,613
Interest on Debt Service	118,375	120,918	-	-	118,375	120,918
Sewer	-	-	1,262,988	1,272,858	1,262,988	1,272,858
Other	-	-	340,139	306,281	340,139	306,281
Total Expenses	14,771,918	13,697,554	1,603,127	1,579,139	16,375,045	15,276,693
Increase (Decrease) in Net Position Before Transfers						
	(610,057)	(48,091)	(15,131)	(151,888)	(625,188)	(199,979)
Transfer of Assets						
	(173,000)	-	173,000	-	-	-
Transfers						
	50,131	77,378	(50,131)	(77,378)	-	-
Increase (Decrease) in Net Position	\$ (732,926)	\$ 29,287	\$ 107,738	\$ (229,266)	\$ (625,188)	\$ (199,979)

Governmental Activities

In fiscal year 2016, property taxes accounted for approximately 70.3% of the revenues. In fiscal year 2015 they accounted for 71%.

Business-type Activities

Sewer rates are structured to cover all costs related to the activity. The betterment charges were established to fund all betterment related costs. Ambulance rates are structured to cover all related costs.

Financial Analysis of the Town's Funds

Governmental Funds

The focus of the Town of Shirley, Massachusetts' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Shirley, Massachusetts' financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Town of Shirley, Massachusetts itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Town of Shirley, Massachusetts' Selectmen.

General Fund – The year-end fund balances of the general fund were \$188,716 less than the prior year's fund balances.

The following tables reflect the trend in all components of fund balance and "free cash" for the previous ten fiscal years.

Fiscal Year	Reserved for Encumbrances	Reserved for Debt Service	Reserved for Deficits	Reserved for Subsequent Year's Expenditure	Unreserved	Total Fund Balance
2007	\$ 17,610	\$ 3,772	\$ -	\$ 392,967	\$ 364,417	\$ 778,766
2008	84,094	3,574	(93,147)	39,850	172,377	206,748
2009	170,585	349,717	(20,045)	-	237,666	737,923
2010	150,390	324,518	-	30,000	537,559	1,042,467

In accordance with GASB 54 the stabilization fund is now reported in the general fund as a component of unassigned fund balance. Prior to fiscal year 2011, the stabilization fund was reported in the special revenue fund.

GASB 54 was implemented in fiscal year 2011. As a result the account titles of the components of fund balance changed as follows:

Fiscal Year	Restricted	Committed	Assigned	Unassigned	Total Fund Balance
2011	\$ 277,250	\$ 103,496	\$ 225,473	\$ 1,019,236	\$ 1,625,455
2012	244,696	109,296	248,556	1,385,324	1,987,872
2013	212,141	177,210	455,712	1,071,443	1,916,506
2014	179,586	554,414	150,309	1,953,213	2,837,522
2015	147,031	698,517	57,847	2,187,207	3,090,602
2016	114,477	553,801	466,530	1,767,078	2,901,886

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts' Department of Revenue (DOR) determines the amount of general fund "fund balance" available for appropriation. In general, this amount (commonly known as "free cash") is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both.

Fiscal Year	Free Cash
2007	\$ (57,291)
2008	(108,123)
2009	(53,941)
2010	226,051
2011	515,865
2012	571,396
2013	403,814
2014	1,103,734
2015	808,283
2016	789,631

Proprietary Funds

Sewer and Other Enterprise Funds. The Town of Shirley, Massachusetts' proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Sewer enterprise fund at the end of the year was \$8,643,400 and the total decrease in net position was \$193,202. Unrestricted net position of the other enterprise funds at the end of the year was \$182,626 and the increase in net position was \$300,940. A substantial portion (\$173,000) of the increase in the other enterprise fund was a result of the Town acquiring an ambulance and transferring it to the ambulance enterprise fund.

General Fund Budgetary Highlights

The differences between the original budget and the final amended budget were due primarily to special Town meetings and reserve fund transfers. As budgetary information and needs became clearer, the Town approved more appropriations.

Capital Asset and Debt Administration

Capital assets. The Town of Shirley, Massachusetts' investments in capital assets for its governmental and business type activities as of June 30, 2016, amounts to \$36,543,656 (net of accumulated depreciation and debt). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

Major capital asset events during the current fiscal year included the following:

Server/Computer & Equipment	\$ 63,048
Ambulance	\$173,000

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 5,574,662	\$ 5,574,662	\$ 29,989	\$ 29,989	\$ 5,604,651	\$ 5,604,651
Buildings	15,336,728	15,984,023	-	-	15,336,728	15,984,023
Improvements Other Than Buildings	270,736	324,977	-	-	270,736	324,977
Infrastructure	2,308,896	2,399,266	12,117,111	12,458,101	14,426,007	14,857,367
Equipment	245,421	209,506	107,194	-	352,615	209,506
Vehicles	489,112	563,567	63,807	1	552,919	563,568
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 24,225,555</u>	<u>\$ 25,056,001</u>	<u>\$ 12,318,101</u>	<u>\$ 12,488,091</u>	<u>\$ 36,543,656</u>	<u>\$ 37,544,092</u>

Debt

The Town had \$7,934,957 in bonds, outstanding on June 30, 2016. This represents a \$1,359,688 or 14.6% decrease from the previous year.

On December 18, 2012 Moody's Investors Service affirmed the Town's A1 rating.

Outstanding Debt at June 30, 2016 vs. June 30, 2015

Governmental Activities	<u>2016</u>	<u>2015</u>
General Obligation Bonds Payable	\$ 2,826,785	\$ 3,252,332
Business-Type Activities		
Sewer:		
General Obligation Bonds Payable	<u>5,108,172</u>	<u>6,042,313</u>
Total Debt	<u><u>\$ 7,934,957</u></u>	<u><u>\$ 9,294,645</u></u>

Fiscal Year 2017 Budget

An initiative state statute, commonly known as "Proposition 2 ½", limits the amount of property taxes that Towns can assess in any one year. In general, the Town's property tax levy may increase by 2 ½ percent over the prior year's tax levy, plus any additional amount derived by new developments or other changes made to existing property. If a community wishes to levy taxes above the limitations imposed by "Proposition 2 ½", it is necessary to obtain the approval of a majority of the voters at an election.

Once again, limited resources and increased fixed costs (i.e. health insurance premiums) put pressure to hold other costs down. However, the Town managed to fund the operating budget without any significant reductions in the workforce.

Request for Information

This financial report is designed to provide a general overview of the Town of Shirley, Massachusetts' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town of Shirley
Town Accountant's Office
7 Keady Way
Shirley, MA 01464

Town of Shirley, Massachusetts
Statement of Net Position
June 30, 2016

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government- Wide <u>Total</u>
Assets			
Current:			
Cash/Investments	\$ 3,764,105	\$ 3,434,278	\$ 7,198,383
Petty Cash	200	-	200
Accounts Receivable:			
Property Taxes	263,466	-	263,466
Tax Liens	818,493	11,402	829,895
Excises	122,774	-	122,774
Special Assessments	-	55,772	55,772
Special Assessments Liens	-	100,666	100,666
User Charges	-	285,800	285,800
Utility Liens	-	4,587	4,587
Intergovernmental	1,093,851	-	1,093,851
Septic Loans	102,767	-	102,767
Other	9,212	-	9,212
Noncurrent:			
Accounts Receivable:			
Special Assessments Not Yet Due	-	5,196,452	5,196,452
Capital Assets:			
Assets Not Being Depreciated	5,574,662	29,989	5,604,651
Assets Being Depreciated, Net	18,650,893	12,288,112	30,939,005
Total Assets	<u>30,400,423</u>	<u>21,407,058</u>	<u>51,807,481</u>
Deferred Outflows of Resources			
Pensions	460,600	9,880	470,480
Total Deferred Outflows of Resources	<u>460,600</u>	<u>9,880</u>	<u>470,480</u>
Liabilities			
Current:			
Warrants Payable	237,174	-	237,174
Accrued Salaries Payable	37,842	-	37,842
Other Liabilities	33,209	-	33,209
Accrued Interest Payable	39,060	4,594	43,654
Compensated Absences	45,687	102	45,789
Landfill Liabilities	8,255	-	8,255
Bond Anticipation Notes Payable	777,685	-	777,685
Bonds Payable	377,258	966,446	1,343,704
Noncurrent:			
Compensated Absences	19,580	44	19,624
Bonds Payable	2,449,527	4,141,726	6,591,253
Landfill Liabilities	112,345	-	112,345
Net Pension Liability	8,942,226	191,815	9,134,041
Other Post Employment Benefit Obligation:	1,791,349	75,526	1,866,875
Total Liabilities	<u>14,871,197</u>	<u>5,380,253</u>	<u>20,251,450</u>
Deferred Inflows of Resources			
Pensions	34,051	730	34,781
Taxes Paid in Advance	9,300	-	9,300
Total Deferred Inflows of Resources	<u>43,351</u>	<u>730</u>	<u>44,081</u>
Net Position			
Net Investment in Capital Assets	20,991,506	7,209,929	28,201,435
Restricted for:			
Special Revenue	1,468,922	-	1,468,922
Perpetual Funds:			
Expendable	105,446	-	105,446
Nonexpendable	161,700	-	161,700
Unrestricted	(6,781,099)	8,826,026	2,044,927
Total Net Position	<u>\$ 15,946,475</u>	<u>\$ 16,035,955</u>	<u>\$ 31,982,430</u>

Town of Shirley, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2016

Functions/Programs	Net (Expenses) Revenues and Changes						
	Program Revenues				in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<i>Governmental Activities:</i>							
General Government	\$ 1,641,971	\$ 296,175	\$ 170,616	\$ -	\$ (1,175,180)	\$ -	\$ (1,175,180)
Public Safety	1,798,660	297,808	49,811	-	(1,451,041)	-	(1,451,041)
Education	7,921,912	-	6,821	-	(7,915,091)	-	(7,915,091)
Highways and Public Works	821,290	25,954	270,204	-	(525,132)	-	(525,132)
Human Services	207,251	17,957	118,345	-	(70,949)	-	(70,949)
Culture and Recreation	553,718	273,870	39,455	-	(240,393)	-	(240,393)
Fringe Benefits	1,708,741	-	-	-	(1,708,741)	-	(1,708,741)
Interest on Debt Service	118,375	-	-	-	(118,375)	-	(118,375)
Total Governmental Activities	14,771,918	911,764	655,252	-	(13,204,902)	-	(13,204,902)
<i>Business-Type Activities:</i>							
Sewer	1,262,988	572,371	537,844	-	-	(152,773)	(152,773)
Other	340,139	448,718	22,063	-	-	130,642	130,642
Total Business-Type Activities	1,603,127	1,021,089	559,907	-	-	(22,131)	(22,131)
Total Primary Government	\$ 16,375,045	\$ 1,932,853	\$ 1,215,159	\$ -	(13,204,902)	(22,131)	(13,227,033)
<i>General Revenues:</i>							
Property Taxes					9,958,224	-	9,958,224
Motor Vehicle and Other Excise Taxes					861,872	-	861,872
Penalties and Interest on Taxes					62,338	-	62,338
Other Taxes, Assessments and in Lieu Payments					18,035	-	18,035
Intergovernmental					1,578,016	-	1,578,016
Interest and Investment Income					85,047	-	85,047
Other Revenue					31,313	-	31,313
Transfer of Capital Assets to Ambulance Fund					(173,000)	173,000	-
Gain (Loss) on Disposition of Capital Assets					-	7,000	7,000
Transfers, Net					50,131	(50,131)	-
Total General Revenues and Transfers					12,471,976	129,869	12,601,845
Change in Net Position					(732,926)	107,738	(625,188)
<i>Net Position:</i>							
Beginning of the Year					16,679,401	15,928,217	32,607,618
End of the Year					\$ 15,946,475	\$ 16,035,955	\$ 31,982,430

Town of Shirley, Massachusetts
Governmental Funds
Balance Sheet
June 30, 2016

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash/Investments	\$ 3,106,063	\$ 658,042	\$ 3,764,105
Petty Cash	-	200	200
Accounts Receivable:			
Property Taxes	263,466	-	263,466
Tax Liens	818,493	-	818,493
Excises	122,774	-	122,774
Septic Loans	-	102,767	102,767
Other	9,212	-	9,212
Intergovernmental	-	1,093,851	1,093,851
Total Assets	<u>\$ 4,320,008</u>	<u>\$ 1,854,860</u>	<u>\$ 6,174,868</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Warrants Payable	\$ 237,174	\$ -	\$ 237,174
Accrued Salaries Payable	37,842	-	37,842
Bonds Anticipation Notes Payable	-	777,685	777,685
Unclaimed Checks	33,209	-	33,209
Total Liabilities	<u>308,225</u>	<u>777,685</u>	<u>1,085,910</u>
Deferred Inflows of Resources:			
Unavailable Revenue	1,100,597	1,083,404	2,184,001
Taxes Paid In Advance	9,300	-	9,300
Total Deferred Inflows of Resources	<u>1,109,897</u>	<u>1,083,404</u>	<u>2,193,301</u>
Fund Equity:			
Fund Balances:			
Nonspendable	-	161,700	161,700
Restricted	114,477	456,885	571,362
Committed	553,801	54,960	608,761
Assigned	466,530	-	466,530
Unassigned	1,767,078	(679,774)	1,087,304
Total Fund Balances	<u>2,901,886</u>	<u>(6,229)</u>	<u>2,895,657</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,320,008</u>	<u>\$ 1,854,860</u>	<u>\$ 6,174,868</u>

Town of Shirley, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2016

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Revenues:</u>			
Property Taxes	\$ 9,787,126	\$ -	\$ 9,787,126
Tax Liens	43,845	-	43,845
Excises	857,882	-	857,882
Penalties and Interest	62,338	-	62,338
Licenses and Permits	296,479	-	296,479
Fees and Other Departmental	140,602	10,731	151,333
Intergovernmental	1,688,965	358,714	2,047,679
Charges for Services	-	448,403	448,403
Fines and Forfeits	10,282	-	10,282
Earnings on Investments	85,047	24,836	109,883
In Lieu of Taxes	18,035	-	18,035
Contributions	-	29,230	29,230
Miscellaneous	36,313	4,726	41,039
Total Revenues	<u>13,026,914</u>	<u>876,640</u>	<u>13,903,554</u>
<u>Expenditures:</u>			
Current			
General Government	1,149,339	338,782	1,488,121
Public Safety	1,664,368	205,130	1,869,498
Education	7,455,806	1,020	7,456,826
Highways and Public Works	553,295	159,348	712,643
Human Services	158,238	43,269	201,507
Culture and Recreation	221,741	274,962	496,703
Debt Service	549,041	-	549,041
Intergovernmental	60,195	-	60,195
Employee Benefits	1,449,184	-	1,449,184
Total Expenditures	<u>13,261,207</u>	<u>1,022,511</u>	<u>14,283,718</u>
Excess of Revenues Over (Under) Expenditures	<u>(234,293)</u>	<u>(145,871)</u>	<u>(380,164)</u>
Other Financing Sources (Uses):			
Transfers In	123,940	82,443	206,383
Transfers (Out)	(78,363)	(108,018)	(186,381)
Total Other Financing Sources (Uses)	<u>45,577</u>	<u>(25,575)</u>	<u>20,002</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(188,716)</u>	<u>(171,446)</u>	<u>(360,162)</u>
Fund Balance, July 1, 2015	<u>3,090,602</u>	<u>165,217</u>	<u>3,255,819</u>
Fund Balance, June 30, 2016	<u>\$ 2,901,886</u>	<u>\$ (6,229)</u>	<u>\$ 2,895,657</u>

Town of Shirley, Massachusetts
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Position
June 30, 2016

Total governmental fund balances	\$ 2,895,657
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	24,225,555
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,184,001
Deferred Outflows of Resources related to pensions are reported and amortized in the governmental activities. They are not current financial resources and, therefore, reported in the fund financial statements.	
Deferred Outflows of Resources	460,600
Deferred Inflows of Resources	(34,051)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(2,826,785)
Accrued Interest on Bonds	(39,060)
Landfill Postclosure Payable	(120,600)
Net Pension Liability	(8,942,226)
Other Post Employment Benefit Obligations	(1,791,349)
Compensated Absences	(65,267)
Net position of governmental activities	<u><u>\$ 15,946,475</u></u>

Town of Shirley, Massachusetts
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2016

Net change in fund balances - total governmental funds		\$ (360,162)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the difference between depreciation and capital outlays in the current period.		
Capital Outlay	127,073	
Depreciation	<u>(957,519)</u>	
Net Effect of Reporting Capital Assets		(830,446)
Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in Unavailable Revenue from the prior year to the current year.		
		258,307
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Principal Payments on Bonds	<u>425,547</u>	
Net Effect of Reporting Long Term Debt		425,547
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These amounts represent the change in these accounts from the prior fiscal year.		
Compensated Absences Payable	20,011	
Accrued Interest Payable	5,119	
Landfill Payable	8,255	
Other Post Employment Benefits Payable	(85,671)	
Deferred Outflows of Resources - Pensions	432,333	
Deferred Inflows of Resources - Pensions	(34,051)	
Net Pension Liability	<u>(572,168)</u>	
Net Effect of Reporting Other Items		<u>(226,172)</u>
Change in Net Position of Governmental Activities		<u><u>\$ (732,926)</u></u>

Town of Shirley, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2016

	Business-Type Activities - Enterprise Fund		
	<u>Sewer</u>	<u>Other</u>	<u>Total</u>
Assets			
Current:			
Cash	\$ 3,151,717	\$ 282,561	\$ 3,434,278
Accounts Receivable, Net of Allowance for Uncollectibles			
User Charges	225,106	60,694	285,800
Sewer Liens	4,587	-	4,587
Tax Liens	11,402	-	11,402
Special Assessments	55,772	-	55,772
Special Assessment Liens	100,666	-	100,666
Noncurrent:			
Accounts Receivable:			
Special Assessments Not Yet Due	5,196,452	-	5,196,452
Assets Not Being Depreciated	29,989	-	29,989
Assets Being Depreciated, Net	12,117,112	171,000	12,288,112
Total Assets	<u>20,892,803</u>	<u>514,255</u>	<u>21,407,058</u>
Deferred Outflows of Resources			
Pensions	3,293	6,587	9,880
Total Deferred Inflows of Resources	<u>3,293</u>	<u>6,587</u>	<u>9,880</u>
Liabilities			
Current:			
Accrued Interest Payable	4,594	-	4,594
Compensated Absences	-	102	102
Bonds Payable	966,446	-	966,446
Noncurrent:			
Compensated Absences	-	44	44
Bonds Payable	4,141,726	-	4,141,726
Net Pension Liability	63,939	127,876	191,815
Other Post Employment Benefit Obligations	36,819	38,707	75,526
Total Liabilities	<u>5,213,524</u>	<u>166,729</u>	<u>5,380,253</u>
Deferred Inflows of Resources			
Pensions	243	487	730
Total Deferred Inflows of Resources	<u>243</u>	<u>487</u>	<u>730</u>
Net Position			
Net Investment in Capital Assets	7,038,929	171,000	7,209,929
Unrestricted	8,643,400	182,626	8,826,026
Total Net Position	<u>\$ 15,682,329</u>	<u>\$ 353,626</u>	<u>\$ 16,035,955</u>

Town of Shirley, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
June 30, 2016

	Business - Type Activities - <u>Enterprise Fund</u>		
	<u>Sewer Enterprise</u>	<u>Other Enterprise</u>	<u>Total Enterprise</u>
Operating Revenues:			
Charges for Services	\$ 431,347	\$ 448,718	\$ 880,065
Total Operating Revenues	<u>431,347</u>	<u>448,718</u>	<u>880,065</u>
Operating Expenditures:			
Personal Services	12,760	140,574	153,334
Nonpersonal Services	628,583	190,565	819,148
Depreciation	340,990	9,000	349,990
Total Operating Expenditures	<u>982,333</u>	<u>340,139</u>	<u>1,322,472</u>
Operating Income	<u>(550,986)</u>	<u>108,579</u>	<u>(442,407)</u>
Nonoperating Revenues (Expenses):			
Earnings on Investments	112,068	22,063	134,131
Committed Interest on Special Assessments	141,024	-	141,024
Intergovernmental	425,776	-	425,776
Gain on Disposal of Capital Assets	-	7,000	7,000
Interest on Debt	(280,655)	-	(280,655)
Total Nonoperating Revenues (Expenses)	<u>398,213</u>	<u>29,063</u>	<u>427,276</u>
Income Before Capital Contributions and Transfers	<u>(152,773)</u>	<u>137,642</u>	<u>(15,131)</u>
Capital Contributions and Transfers:			
Capital Asset Contributions	-	173,000	173,000
Transfers Out	(40,429)	(9,702)	(50,131)
Total Capital Contributions and Transfers	<u>(40,429)</u>	<u>163,298</u>	<u>122,869</u>
Change in Net Position	<u>(193,202)</u>	<u>300,940</u>	<u>107,738</u>
Net Position July 1, 2015	<u>15,875,531</u>	<u>52,686</u>	<u>15,928,217</u>
Net Position June 30, 2016	<u>\$ 15,682,329</u>	<u>\$ 353,626</u>	<u>\$ 16,035,955</u>

Town of Shirley, Massachusetts
Statement of Cash Flows
Proprietary Funds
June 30, 2016

	<u>Sewer</u>	<u>Other</u>
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 444,096	\$ 416,932
Payments to Employees	(12,760)	(142,350)
Payments to Vendors	(619,771)	(180,629)
Net Cash Flows Provided (Used) by Operating Activities	<u>(188,435)</u>	<u>93,953</u>
Cash Flows from Non Capital Related Financing Activities		
Transfers from/to Other Funds	<u>(40,429)</u>	<u>(9,702)</u>
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(40,429)</u>	<u>(9,702)</u>
Cash Flows from Capital and Related Financing Activities:		
Special Assessments	786,434	-
Principal Payments on Notes and Bonds	(775,358)	-
Interest Expense	<u>(14,260)</u>	<u>-</u>
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(3,184)</u>	<u>-</u>
Cash Flows from Investing Activities:		
Earnings on Investments	<u>112,068</u>	<u>22,063</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>112,068</u>	<u>22,063</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(119,980)	106,314
Cash and Cash Equivalents, July 1, 2015	<u>3,271,697</u>	<u>176,247</u>
Cash and Cash Equivalents, June 30, 2016	<u><u>\$ 3,151,717</u></u>	<u><u>\$ 282,561</u></u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (550,986)	\$ 108,579
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	340,990	9,000
Deferred Outflows Related to Pensions	(3,091)	(6,183)
(Increase) Decrease in Accounts Receivable	12,749	(31,786)
Increase (Decrease) Compensated Absences Payable	-	(1,776)
Increase (Decrease) Other Post Employment Benefits Payable	7,568	7,451
Deferred Inflows Related to Pensions	243	487
Increase (Decrease) in Net Pension Liability	4,092	8,181
Net Cash Provided by Operating Activities	<u><u>\$ (188,435)</u></u>	<u><u>\$ 93,953</u></u>

Town of Shirley, Massachusetts
Fiduciary Funds
Statement of Net Position
June 30, 2016

	Private Purpose <u>Trust</u>	Other Post Employment <u>Benefits</u>	<u>Agency</u>
Assets			
Cash	\$ 342,843	\$ 20,704	\$ 1,068,495
Total Assets	<u>342,843</u>	<u>20,704</u>	<u>1,068,495</u>
Liabilities			
Current:			
Employees' Withholding Payable	-	-	31,538
Due to Other Government	-	-	286
Performance Bonds Payable	-	-	1,004,890
Details Payable	-	-	(1,422)
Other Liabilities	-	-	33,203
Total Liabilities	<u>-</u>	<u>-</u>	<u>1,068,495</u>
Net Position			
Held In Trust for:			
Other Post Employment Benefits	-	20,704	-
Other Purposes	342,843	-	-
Total Net Position	<u>\$ 342,843</u>	<u>\$ 20,704</u>	<u>\$ -</u>

Town of Shirley, Massachusetts
Fiduciary Funds
Statement of Changes in Net Position
June 30, 2016

	Private Purpose <u>Trust</u>	Other Post Employment <u>Benefits</u>
Additions:		
Employer Contributions	\$ -	\$ 10,000
Earnings on Investments	<u>25,737</u>	<u>924</u>
Total Additions	<u>25,737</u>	<u>10,924</u>
Deductions		
Disbursements	<u>5,000</u>	<u>-</u>
Change in Net Position	<u>20,737</u>	<u>10,924</u>
Net Position:		
Beginning of the Year	<u>322,106</u>	<u>9,780</u>
Ending of the Year	<u><u>\$ 342,843</u></u>	<u><u>\$ 20,704</u></u>

I. **Summary of Significant Accounting Policies**

The accounting policies of the Town of Shirley, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2016, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter.

The more significant accounting policies of the Town are summarized below.

(A) **Reporting Entity**

The Town's basic financial statements include the operations of all organizations for which the Board of Selectmen exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

As of July 1, 2011, the school system of the Town of Shirley became part of the Ayer-Shirley Regional School District, a separate and distinct entity. As a result, the financial activity of the School District is not reported in the accompanying financial statements (except for the regional school assessment reported in the general fund). Prior to the regionalization, state education aid revenues were received and reported in the Town's general fund. Additionally, revenues and expenditures related to education grants, revolving and other special revenue funds were previously accounted for and reported in the Town's non major funds. As of July 1, 2011 those revenues and expenditures are received and spent by the Ayer-Shirley Regional School District. Currently, the Town of Shirley receives an annual member assessment and pays it from the general fund as it becomes due throughout the year.

Based on the aforementioned oversight criteria, the Town was the only entity included in the accompanying basic financial statements.

(B) **Government-wide and fund financial statements**

Government-Wide Financial Statements

The **government-wide financial statements** (i.e., the **statement of net position** and the **statement of activities**) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10% of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the enterprise fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise taxes, amounts due under grants, charges for services and investment income.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, accumulated sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) debt service expenditures which are recognized when due.

The Town reports the following major governmental fund:

General Fund – This is the Town’s general operating fund. It accounts for all financial resources of the general government except those required to be accounting for in another fund.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental funds financial statements. The following types of funds are included in the nonmajor category:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is primarily used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary fund:

Sewer Fund – This fund is used to account for the activities related to the sewer system.

In addition, the Town utilizes proprietary funds to account for its ambulance service and the trash collection operations.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The private-purpose trust fund is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion to be spent. The Town maintains a private purpose trust fund for several charitable trusts funds and an other Post Employment Benefits trust fund.

The agency fund is used to account for assets held in a purely custodial capacity.

(D) **Assets/Deferred Outflows, Liabilities/Deferred Inflows and Net Position or Equity**

i **Deposits and Investments**

The Town's cash and cash equivalents are considered to be demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institutions involved. Investments can also be made in

securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Municipal Depository Trust (“MMDT”).

Certain governmental funds (primarily trust funds) have broader investment powers which allow for investments in common stocks, corporate bonds and other types of investments.

ii Property Taxes

The Town's fiscal year runs from July 1 to June 30. Taxes are levied to the owner of record on the preceding January 1. The Town bills property taxes on a quarterly basis. Quarterly payments are due on August 1, November 1, February 1 and May 1. Property taxes attach as enforceable liens on property as of July 1 of the next fiscal year.

The Town is permitted under state law to levy property taxes up to 2.5% of the full and fair cash value of the Town’s property. In addition, the law limits the amount by which the property tax levy can be increased to 2.5% of the preceding year's levy plus any new growth. Debt exclusions, capital exclusions and overrides of Proposition 2 ½ may be approved by a vote of the Town.

iii Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Infrastructure	40-50
Vehicles	5-10
Other Equipment	10
Office Equipment	5

iv. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and the balance sheet will sometimes report a separate section for **deferred outflows** of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of net position and the balance sheet will sometimes report a separate section for **deferred inflows** of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Town's governmental fund financial statements (balance sheet) reflect deferred inflows of resources for revenues that do not meet the "available" criteria. The government wide financial statements (statement of net position) reflect deferred outflows and deferred inflows of resources related to pension and deferred inflows of resources related to taxes paid in advance of when they may be utilized.

v. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Middlesex County Retirement System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

vi. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows.

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be debt used to acquire capital assets.

Net position is reported as restricted when there is an externally imposed restriction on its use or it is limited by enabling legislation.

Fund Financial Statements (Fund Balances)

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to the constraints on the specific purposes for which the amounts in those funds can be spent.

GASB 54 requires that the Town report fund balance amounts within one of the fund balance categories list below.

1. **Nonspendable**, includes amounts that cannot be spent because they are (a) not in spendable form (such as fund balance associated with inventories) or are (b) legally or contractually required to stay intact (i.e. corpus of a permanent trust fund),

2. **Restricted**, constraints are placed on the use of resources that can be spent only for specific purposes. The constraints are either (a) imposed by creditors, grantors or contributors, or (b) imposed by law through constitutional provisions or through enabling legislation,

3. **Committed**, includes amounts that can be used only for the specific purposes determined by a formal action of Town meeting (the Town's highest level of decision-making authority).

Committed fund balance cannot be used for any other purpose unless the same formal action (i.e. Town meeting vote) that was taken to commit the fund balance is taken to uncommit it or commit it for another purpose,

4. **Assigned**, intended (by the Board of Selectmen, Town Administrator or Town Accountant) to be used by the government for specific purposes, but does not meet the criteria to be classified as restricted or committed, and

5. **Unassigned**, the residual classification for the government's general fund and includes all spendable amounts not contained in the restricted, committed or assigned categories.

The Town has not formally adopted a policy for its use of unrestricted fund balance. Therefore, in accordance with GASB 54, it is considered that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Details of Fund Balance Classifications

The following schedule shows the detail of the fund balance classifications displayed in the aggregate on the Town's balance sheet.

	<u>General Fund</u>	<u>Non Major Funds</u>	<u>Total</u>
Fund Balances:			
Nonspendable:			
Education	\$ -	\$ 10,000	\$ 10,000
Highways and Public Works	-	150,971	150,971
Culture and Recreation	-	729	729
Total Nonspendable:	<u>-</u>	<u>161,700</u>	<u>161,700</u>
Restricted for:			
General Government	-	122,869	122,869
Education	-	89,275	89,275
Highways and Public Works	-	22,001	22,001
Human Services	-	85,582	85,582
Culture and Recreation	-	137,158	137,158
Debt Service	114,477	-	114,477
Total Restricted:	<u>114,477</u>	<u>456,885</u>	<u>571,362</u>
Committed to:			
General Government	15,016	54,393	69,409
Public Safety	1,533	-	1,533
Highways and Public Works	49,531	-	49,531
Culture and Recreation	-	567	567
Capital Stabilization	487,721	-	487,721
Total Committed:	<u>553,801</u>	<u>54,960</u>	<u>608,761</u>
Assigned to:			
Fund Subsequent Year's Budget	466,530	-	466,530
Total Assigned:	<u>466,530</u>	<u>-</u>	<u>466,530</u>
Unassigned	<u>1,767,078</u>	<u>(679,774)</u>	<u>1,087,304</u>
Total Fund Balances:	<u>\$ 2,901,886</u>	<u>\$ (6,229)</u>	<u>\$ 2,895,657</u>

Stabilization Fund

The Town established stabilization funds in accordance with Massachusetts General Laws Chapter 40 Section 5B. That section of the law stipulates that “cities, towns and districts may create one or more stabilizations funds and appropriate any amount into the funds. Any interest shall be added to and become part of the fund”.

“The treasurer shall be the custodian of all such funds and may deposit the proceeds in national banks or invest the proceeds by deposit in savings banks, co-operative banks or trust companies organized under the laws of the commonwealth, or invest the same in such securities as are legal for the investment of funds of savings banks under the laws of the commonwealth or in federal savings and loans associations situated in the commonwealth”.

“At the time of creating any such fund the city, town or district shall specify, and at any later time may alter, the purpose of the fund, which may be for any lawful purpose, including without limitation an approved school project under chapter 70B or any other purpose for which the city, town or district may lawfully borrow money. Such specification and any such alteration of purpose, and any appropriation of funds into or out of any such fund, shall be approved by two-thirds vote, except as provided in paragraph (g) of section 21C of chapter 59 for a majority referendum vote. Subject to said section 21C, in a town or district any such vote shall be taken at an annual or special town meeting and in a city any such vote shall be taken by city council”.

As of June 30, 2016, the Town’s stabilization fund had a balance of \$657,341. The stabilization fund is reported as a component of unassigned fund balance in the general fund on the Town’s balance sheet. Also, the Town’s capital stabilization fund had a balance of \$487,721. The capital stabilization fund is reported as a component of committed fund balance in the general fund on the Town’s balance sheet.

vii. Compensated Absences

The liabilities for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated annual vacation and sick leave benefits.

viii. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

ix. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

x. Warrants Payable

The balance in this account consists of those warrants approved by the Selectmen for payment between July 1, 2016 and July 15, 2016. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2016 and the corresponding credit is to the account entitled warrants payable.

xi. Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

II **Stewardship, Compliance and Accountability**

(A) Budgetary Information

i General Budget Policies

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January, February and March of each year. The Selectmen and Finance Committee have until April/May, which is when the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations.

ii Budget Basis of Accounting

The final budget appearing in the required supplementary information section of the financial statements is taken from the Town's annual recap sheet and includes those amounts which pertain to fiscal 2016 adjusted for any special Town meeting votes applicable to fiscal 2016 and reserve fund transfers authorized by the Finance Committee.

The following reconciliation summarizes the differences between the budget basis and the Generally Accepted Accounting Principles basis (fund financial statement) for the year ended June 30, 2016.

	<u>Revenues</u>
As Reported Budget Basis	\$ 12,921,071
Adjustments:	
Sixty Day Property Tax Accrual - Net	25,595
Earnings on Investments from Stabilization Fund	80,248
As Reported Fund Financial Statement	<u>\$ 13,026,914</u>

	<u>Expenditures</u>
As Reported Budget Basis	\$ 13,126,729
Adjustments:	
July 1, 2015 Encumbrances	253,790
June 30, 2016 Encumbrances	(66,080)
Paydown of BAN classified as Debt Expense - Budget Basis	(63,232)
Transfer to OPEB Trust is an Employee Benefits expense (GAAP)	10,000
As Reported Fund Financial Statement	<u>\$ 13,261,207</u>

III **Detailed Notes on All Funds**

A. **Deposits**

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2016, \$49,944 of the Town's bank balance of \$4,970,020 was exposed to credit risk.

Uninsured and Uncollateralized \$ 49,944

Investments

As of June 30, 2016, the Town had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
U. S. Government Obligations	\$ 1,221,368	\$ 78,265	\$ 1,143,103	\$ -
Certificate Deposits	954,600	-	954,600	-
Corporate Bonds	<u>638,709</u>	<u>-</u>	<u>638,709</u>	<u>-</u>
Total	2,814,677	\$ 78,265	\$ 2,736,412	\$ -

Other Investments:

Money Market Funds	135,560
Mutual Funds	8,079
Equities	1,139,156
Mass. Municipal Depository Trust	<u>740,439</u>
Total Other Investments	<u>2,023,234</u>
Total Investments	<u>\$ 4,837,911</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth of Massachusetts has an investment “legal list” that the Town follows. However, the Town does not have its own formal policy relating to credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Town does not have a formal policy that limits the amount it may invest in a single issuer.

Fair Value Measurement

Statement #72 of the Government Accounting Standards Board ("GASB") *Fair Value Measurements and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Town has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Towns' own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Town's own data.

The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town’s mission, the Town determines that the disclosures related to these investments only need to be disaggregated by major type. The Town chooses a tabular format for disclosing the levels within the fair value hierarchy.

The Town has the following recurring fair value measurements as of June 30, 2016:

<u>Fair Value Measurements Using</u>				
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	<u>Total</u>			
Investment by Fair Value Level:				
U. S. Treasuries	\$ 1,221,368	\$ 1,221,368	\$ -	\$ -
Corporate Bonds	638,709	-	638,709	-
Mutual Funds	8,079	8,079	-	-
Common Stock	1,139,156	1,139,156	-	-
Money Market Mutual Funds	135,560	135,560	-	-
Certificates of Deposit	954,600	-	954,600	-
Total Assets in the Fair Value Hierarchy	<u>4,097,472</u>	<u>2,504,163</u>	<u>1,593,309</u>	<u>-</u>

Investments Not Subject to Fair Value Hierarchy reporting:

Mass. Municipal Depository Trust	<u>740,439</u>
Total Investments	<u><u>\$ 4,837,911</u></u>

The investments classified in Level 1 of the fair value hierarchy were valued using prices quoted in active markets for those securities.

B. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Government Activities:				
Land	\$ 5,574,662	\$ -	\$ -	\$ 5,574,662
Total Capital Assets Not Being Depreciated	<u>5,574,662</u>	<u>-</u>	<u>-</u>	<u>5,574,662</u>
Assets Being Depreciated:				
Buildings	25,056,239	-	-	25,056,239
Improvements Other Than Buildings	775,993	-	-	775,993
Infrastructure	6,912,741	-	-	6,912,741
Equipment	1,630,055	81,666	(13,732)	1,697,989
Vehicles	2,600,597	45,407	-	2,646,004
Other	138,350	-	-	138,350
Total Capital Assets Being Depreciated	<u>37,113,975</u>	<u>127,073</u>	<u>(13,732)</u>	<u>37,227,316</u>

B. Capital Assets (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance
Less Accumulated Depreciation for:				
Buildings	(9,072,216)	(647,295)	-	(9,719,511)
Improvements Other Than Buildings	(451,016)	(54,241)	-	(505,257)
Infrastructure	(4,513,475)	(90,370)	-	(4,603,845)
Equipment	(1,420,549)	(45,751)	13,732	(1,452,568)
Vehicles	(2,037,030)	(119,862)	-	(2,156,892)
Other	(138,350)	-	-	(138,350)
Total Accumulated Depreciation	<u>(17,632,636)</u>	<u>(957,519)</u>	<u>13,732</u>	<u>(18,576,423)</u>
Capital Assets Being Depreciated, Net	<u>19,481,339</u>	<u>(830,446)</u>	<u>-</u>	<u>18,650,893</u>
Governmental Activities Capital Assets, Net	<u>\$ 25,056,001</u>	<u>\$ (830,446)</u>	<u>\$ -</u>	<u>\$ 24,225,555</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 144,758
Public Safety	106,878
Education	465,086
Highways and Public Works	178,295
Human Services	5,996
Culture and Recreation	56,506
Total Governmental Activities Depreciation Expense	<u>\$ 957,519</u>

	Beginning Balance	Additions	Reductions	Ending Balance
Business-Type Activities:				
Land	\$ 29,989	\$ -	\$ -	\$ 29,989
Total Capital Assets not Being Depreciated	<u>29,989</u>	<u>-</u>	<u>-</u>	<u>29,989</u>
Assets Being Depreciated:				
Infrastructure	17,039,060	-	-	17,039,060
Equipment	62,000	-	-	62,000
Vehicles	187,631	180,000	(107,194)	260,437
Total Capital Assets Being Depreciated	<u>17,288,691</u>	<u>180,000</u>	<u>(107,194)</u>	<u>17,361,497</u>
Less Accumulated Depreciation for:				
Infrastructure	(4,580,959)	(340,990)	-	(4,921,949)
Equipment	(62,000)	-	107,194	45,194
Vehicles	(187,630)	(9,000)	-	(196,630)
Total Accumulated Depreciation	<u>(4,830,589)</u>	<u>(349,990)</u>	<u>107,194</u>	<u>(5,073,385)</u>
Capital Assets Being Depreciated, Net	<u>12,458,102</u>	<u>(169,990)</u>	<u>-</u>	<u>12,288,112</u>
Business-Type Activities Capital Assets, Net	<u>\$ 12,488,091</u>	<u>\$ (169,990)</u>	<u>\$ -</u>	<u>\$ 12,318,101</u>

Depreciation expense was charged to functions as follows:

Business-type Activities:	
Sewer	\$ 340,990
Other	9,000
Total Business-type Activities Depreciation Expense	<u>\$ 349,990</u>

C. Accounts Receivable

The accounts receivable on the combined balance sheet are listed below by levy.

Governmental Activities

Property Taxes Receivable:

Real Estate Taxes

2016	\$ 210,484	
2015	23,296	
2014	9,983	
2013	4,695	
2012	(19)	
2011	(5)	
Clause 41A Real Estate	6,601	
Supplemental Real Estate	195	
Rollback Taxes	1,392	
Total Real Estate Taxes		\$ 256,622

Personal Property Taxes

2016	3,339	
2015	1,892	
2014	1,534	
2013	50	
2012	29	
Total Personal Property Taxes		6,844

Total Property Taxes Receivable \$ 263,466

Tax Liens Receivable \$ 818,493

Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2016	\$91,469
2015	14,537

C. Accounts Receivable (Continued)

2014	4,188	
2013	3,759	
2012	2,589	
2011	3,331	
2010	2,755	
2009	107	
2008 & Prior	39	
Total Excise Taxes Receivable		<u>\$ 122,774</u>

Intergovernmental:

Commonwealth of Massachusetts - for		
Highway Projects	\$ 1,064,595	
Federal Emergency Management Agency	20,820	
Various State Grants	8,436	
Total Intergovernmental		<u>\$ 1,093,851</u>

Septic Loan Receivable:

Septic Repair Loan		<u>\$ 102,767</u>
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Other Receivable:

Health Insurance Premium		<u>\$ 9,212</u>
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Business Type Activities

Sewer Tax Liens		<u>\$ 11,402</u>
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Special Assessments:

Current:

Betterments Added to Taxes 2016	\$21,478	
Betterments Added to Taxes 2015	4,867	
Betterments Added to Taxes 2014	2,030	
Betterments Added to Taxes 2013 & Prior	1,318	
Committed Interest Added to Taxes 2016	15,228	
Committed Interest Added to Taxes 2015	887	
Committed Interest Added to Taxes 2014	323	
Committed Interest Added to Taxes 2013	266	
Sewer Privilege Fee	9,375	
Total Current Special Assessments		<u>\$ 55,772</u>

Special Assessments Liens

Sewer Betterment Liens		<u>\$ 100,666</u>
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C. Accounts Receivable (Continued)

User Charges:

Sewer	\$225,106	
Ambulance	60,694	
Total User Charges		\$ 285,800

Sewer Liens:

Utility Liens Added to Taxes		\$ 4,587
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Noncurrent:

Special Assessments:

Chapter Land	\$93,750	
Senior Not Yet Due - Sewer Assessments	46,875	
Apportioned Sewer Betterments Not Yet Due	5,055,827	
Total Non Current Special Assessments		\$ 5,196,452

D. Debt

i Short Term Debt

The Town had the following bond anticipation notes payable outstanding as of June 30, 2016 as follows:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<u>Governmental Activities:</u>						
<u>Bond Anticipation Notes</u>						
School Building Control System Upgrade	\$ 11,038	\$ -	\$ 11,038	\$ -		
Technical Upgrades	3,332	-	3,332	-		
Septic Loan Program	51,924	-	-	51,924	0.09%	rolling
Energy Performance Contract	525,379	476,517	525,379	476,517	0.80%	2/10/2017
Ambulance	-	180,000	-	180,000	0.85%	6/30/2017
DPW Pickup Truck	-	52,150	-	52,150	0.85%	6/30/2017
Virtual Server	-	17,094	-	17,094	0.85%	6/30/2017
Total Notes Payable Governmental Activities	\$ 591,673	\$ 725,761	\$ 539,749	\$ 777,685		

D. Debt (Continued)

ii Long Term Debt

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and other authorized purposes. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 5 to 30 years. General obligation bonds outstanding at June 30, 2016 are as follows:

(a) General Obligation Bonds Outstanding at June 30, 2016

Governmental Activities:

<u>General Obligation Bond</u>	<u>Fiscal Year</u>	<u>Original</u>	<u>Interest Rates</u>	<u>Fiscal Year</u>	<u>Balance</u>			<u>Balance</u>
	<u>Sale Date</u>	<u>Borrowing</u>	<u>to Maturities</u>	<u>Final Maturity</u>	<u>July 1, 2015</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2016</u>
Library Construction	1997	\$ 1,045,000	3.00%	2016	\$ 40,000	\$ -	\$ (40,000)	\$ -
Capital Plan Issue #3	2006	5,404,000	4.00%	2026	2,615,000	-	(275,000)	2,340,000
MWPAT - Septic Loan	2007	29,492	0.00%	2025	16,353	-	(1,649)	14,704
Townsend Road Construction	2012	103,018	2.75%	2017	41,206	-	(20,603)	20,603
Capital Plan Issue # 2	2013	378,854	3.00%	2018	183,141	-	(65,214)	117,927
MWPAT - Septic Loan	2013	72,661	0.00%	2033	65,393	-	(3,632)	61,761
Town Hall Building Remodeling	2015	20,279	4.90%	2030	20,279	-	(1,359)	18,920
Library Carpet	2015	35,000	4.90%	2030	35,000	-	(2,350)	32,650
DPW Truck	2015	154,342	4.90%	2030	154,342	-	(10,292)	144,050
Bridge Reconstruction	2015	81,618	4.90%	2030	81,618	-	(5,448)	76,170
Total Governmental Activities					<u>\$ 3,252,332</u>	<u>\$ -</u>	<u>\$ (425,547)</u>	<u>\$ 2,826,785</u>

Business Type Activities:

<u>General Obligation Bond</u>	<u>Fiscal Year</u>	<u>Original</u>	<u>Interest Rates</u>		<u>Balance</u>			<u>Balance</u>
	<u>Sale Date</u>	<u>Borrowing</u>	<u>to Maturities</u>	<u>Final Maturity</u>	<u>July 1, 2015</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2016</u>
WPAT Loan 98-131	2001	\$ 1,382,561	2.00%	2021	\$ 525,000	\$ -	\$ (80,000)	\$ 445,000
WPAT Loan 99-32	2001	6,272,676	2.00%	2021	2,385,000	-	(370,000)	2,015,000
WPAT Loan 00-12	2001	6,996,346	2.00%	2021	2,482,454	-	(383,355)	2,099,099
WPAT Loan 00-12A	2002	680,333	2.00%	2021	255,000	-	(40,000)	215,000
Refunding Capital Plan Issue # 2	2006	516,000	3.00%	2026	275,000	-	(25,000)	250,000
Refunding Capital Plan Issue # 2	2013	222,650	3.00%	2018	116,863	-	(34,786)	82,077
Capital Plan Issue #3	2013	5,996	4.00%	2018	2,996	-	(1,000)	1,996
Total Business Type Activities					<u>\$ 6,042,313</u>	<u>\$ -</u>	<u>\$ (934,141)</u>	<u>\$ 5,108,172</u>

D. Debt (Continued)

(b) Summary of Debt Service Requirements to Maturity

<u>Fiscal Year Ended</u>	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 377,258	\$ 108,390	\$ 966,446	\$ 230,888	\$ 1,343,704	\$ 339,278
2018	350,714	95,157	991,737	178,015	1,342,451	273,172
2019	294,721	82,535	985,755	127,500	1,280,476	210,035
2020	275,721	71,457	1,008,780	81,221	1,284,501	152,678
2021	275,716	60,957	1,028,454	32,389	1,304,170	93,346
2022-2026	1,149,752	156,810	127,000	15,418	1,276,752	172,228
2027-2031	95,635	9,490	-	-	95,635	9,490
2032-2036	7,268	-	-	-	7,268	-
Total	<u>\$ 2,826,785</u>	<u>\$ 584,796</u>	<u>\$ 5,108,172</u>	<u>\$ 665,431</u>	<u>\$ 7,934,957</u>	<u>\$ 1,250,227</u>

(c) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2016, are as follows:

<u>Date Authorized</u>	<u>Project</u>	<u>Amount</u>
June 14, 2004	Title V - Sewer	\$327,339
June 12, 2006	CTH Exterior Paint	662
November 13, 2007	Culvert Repair Townsend Road	1,166
December 13, 2010	Shaker Road Bridge Repair	262,579
August 5, 2013	Energy Performance Contracting	476,517
June 2, 2014	Plow and Sander	5,658
April 27, 2015	Ambulance	190,000
April 27, 2015	IT Virtual Server	90,926
April 27, 2015	DPW Truck	52,150
April 23, 2016	Backhoe	132,500
April 23, 2016	Fire Protection Gear	176,780
April 23, 2016	Energy Performance Contracting	<u>193,633</u>
	Total	<u>\$1,909,910</u>

Subsequent to the balance sheet date (November 19, 2016), the Town authorized \$600,000 for the acquisition of a fire truck.

D. Debt (Continued)

(d) Subsidies through the Massachusetts Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust was created by Chapter 275 of the Acts of 1989 to implement the State Revolving Fund Program (SRF) contemplated by the Title VI of the Federal Clean Water Act.

The Trust administers a SRF program which includes both a federal and state capitalized revolving fund. Loans are made from the fund to local governmental units to finance the costs of eligible water pollution abatement programs.

Local governments obtain financing through the SRF and receive subsidies but are obligated for the entire amount of the debt. Subsidies which will be utilized to offset debt service costs disclosed in the summary above are noted below:

	<u>SRF</u>
2017	\$ 408,549
2018	385,200
2019	362,547
2020	340,831
2021	305,751
Total Subsidies	<u><u>\$ 1,802,877</u></u>

iii Changes in the government's long-term liabilities for the year ended June 30, 2015 are as follows:

	Balance <u>July 1, 2015</u>	Additions	Reductions	Balance <u>June 30, 2016</u>	Current <u>Portion</u>
<u>Governmental Activities</u>					
Bonds Payable	\$ 3,252,332	\$ -	\$ (425,547)	\$ 2,826,785	\$ 377,258
Compensated Absences	85,278	39,684	(59,695)	65,267	45,687
Landfill Closure Payable	128,855	-	(8,255)	120,600	8,255
Net Pension Liability	8,370,058	1,267,716	(695,548)	8,942,226	-
Other Post Employment Benefits	<u>1,705,678</u>	<u>85,671</u>	<u>-</u>	<u>1,791,349</u>	<u>-</u>
Total Governmental Activities	<u>\$ 13,542,201</u>	<u>\$ 1,393,071</u>	<u>\$ (1,189,045)</u>	<u>\$ 13,746,227</u>	<u>\$ 431,200</u>
<u>Business Type Activities</u>					
Bonds Payable	\$ 6,042,313	\$ -	\$ (934,141)	\$ 5,108,172	\$ 966,446
Compensated Absences	1,922	146	(1,922)	146	102
Net Pension Liability	179,542	27,193	(14,920)	191,815	-
Other Post Employment Benefits	<u>60,507</u>	<u>15,019</u>	<u>-</u>	<u>75,526</u>	<u>-</u>
Total Business Type Activities	<u>\$ 6,284,284</u>	<u>\$ 42,358</u>	<u>\$ (950,983)</u>	<u>\$ 5,375,659</u>	<u>\$ 966,548</u>

E. Interfund Transfers

The accompanying financial statements reflect transactions between the various funds. These transactions represent operating transfers and do not constitute revenues or expenditures of the funds. Operating transfers made during the year were as follows:

	<u>Transfer In</u>	<u>Transfer (Out)</u>	<u>Total</u>
General	\$ 123,940	\$ (78,363)	\$ 45,577
Non-Major Governmental	82,443	(108,018)	(25,575)
Enterprise	-	(50,131)	(50,131)
Agency	30,129	-	30,129
Total	<u>\$ 236,512</u>	<u>\$ (236,512)</u>	<u>\$ -</u>

IV Other Information

A. Pension Plans

a. General Information about the Pension Plan

Plan Description

The Town provides pension benefits to eligible employees by contributing to the Middlesex County Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex County Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (M.G.L.). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex County Retirement System issues a stand-alone financial report that is available to the public at: <http://middlesexretirement.org/wp-content/uploads/2016/09/MCRS-Final-Audit-Report-12-31-15-Financial-Statements-and-GASB-67-68.pdf> or by writing to the Middlesex County Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

Benefits Provided

The Middlesex County Retirement System provides retirement, disability and death benefits as detailed below:

Retirement Benefits

Employees covered by the Contributory Retirement Law are classified into one of four groups depending on job classification. Group 1 comprises most positions in state and local government. It is the general category of public employees. Group 4 comprises mainly police and firefighters. Group 2 is for other specified hazardous occupations. (Officers and inspectors of the State Police are classified as Group 3.)

For employees hired prior to April 2, 2012, the annual amount of the retirement allowance is based on the member's final three-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the table below based on the age of the member at retirement.

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
	<u>Hired on or before April 1 2012</u>		
2.50%	65+	60+	55+
2.40%	64	59	54
2.30%	63	58	53
2.20%	62	57	52
2.10%	61	56	51
2.00%	60	55	50
1.90%	59	N/A	49
1.80%	58	N/A	48
1.70%	57	N/A	47
1.60%	56	N/A	46
1.50%	55	N/A	45

For employees hired on April 2, 2012 or later, the annual amount of the retirement allowance is based on the member's final five-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the tables below based on the age of the member at retirement:

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
	<u>Hired after April 1 2012</u>		
2.50%	67+	62+	57+
2.35%	66	61	56
2.20%	65	60	55
2.05%	64	59	54
1.90%	63	58	53
1.75%	62	57	52
1.60%	61	56	51
1.45%	60	55	50

For all employees, the maximum annual amount of the retirement allowance is 80 percent of the member's final average salary. Any member who is a veteran also receives an additional yearly retirement allowance of \$15 per year of creditable service, not exceeding \$300. The veteran allowance is paid in addition to the 80 percent maximum.

Retirement Benefits - Superannuation

Members of Group 1, 2 or 4 hired prior to April 2, 2012 may retire upon the attainment of age 55. For retirement at ages below 55, twenty years of creditable service is required.

Members hired prior to April 2, 2012 who terminate before age 55 with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System).

Members of Group 1 hired April 2, 2012 or later may retire upon the attainment of age 60. Members of Group 2 or 4 hired April 2, 2012 or later may retire upon the attainment of age 55.

Members hired April 2, 2012 or later who terminate before age 55 (60 for members of Group 1) with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (60 for members of Group 1) provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System.

Ordinary Disability Benefits

A member who is unable to perform his or her job due to a non-occupational disability will receive a retirement allowance if he or she has ten or more years of creditable service and has not reached age 55. The annual amount of such allowance shall be determined as if the member retired for superannuation at age 55 (age 60 for Group 1 members hired on or after April 2, 2012), based on the amount of creditable service at the date of disability. For veterans, there is a minimum benefit of 50 percent of the member's most recent year's pay plus an annuity based on his or her own contributions.

Accidental Disability Benefit

For a job-connected disability, the benefit is 72 percent of the member's most recent annual pay plus an annuity based on his or her own contributions, plus additional amounts for surviving children. Benefits are capped at 75 percent of annual rate of regular compensation for employees who become members after January 1, 1988.

Death Benefits

In general, the beneficiary of an employee who dies in active service will receive a refund of the employee's own contributions. Alternatively, if the employee were eligible to retire on the date of death, a spouse's benefit will be paid equal to the amount the employee would have received under Option C. The surviving spouse of a member who dies with two or more years of credited service has the option of a refund of the employee's contributions or a monthly benefit regardless of eligibility to retire, if they were married for at least one year. There is also a minimum widow's pension of \$500 per month, and there are additional amounts for surviving children.

If an employee's death is job-connected, the spouse will receive 72 percent of the member's most recent annual pay, in addition to a refund of the member's accumulated deductions, plus additional amounts for surviving children. However, in accordance with Section 100 of Chapter 32, the surviving spouse of a police officer, firefighter or corrections officer who is killed in the line of duty will be eligible to receive an annual benefit equal to the maximum salary held by the member at the time of death. Upon the death of a job-connected disability retiree who retired prior to November 7, 1996 and could not elect an Option C benefit, a surviving spouse will receive an allowance of \$9,000 per year if the member dies for a reason unrelated to cause of disability.

Contributions

Active members of the Middlesex County Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirement of plan members is determined by M.G.L. Chapter 32. The contribution requirements are established by and may be amended by the Middlesex County Retirement System with the approval of the Public Employee Retirement Administration Commission.

The Town's contractually required contribution rate for the year ended June 30, 2016 was 35.21% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$710,468 for the year ending June 30, 2016.

b. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Town reported a liability of \$9,134,041 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Accordingly, update procedures were utilized to roll forward the liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2015, the Town's proportion was 0.708055%.

Chapter 176 of the Acts of 2011 was incorporated in this valuation, which changes many of the benefit features for members hired on or after April 2, 2012. In addition, the COLA base was increased to \$15,000 effective July 1, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$888,087. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 465,766	\$ -
Change in assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	4,714	(34,781)
Contributions subsequent to the measurement date	-	-
	<u>\$ 470,480</u>	<u>\$ (34,781)</u>

Contributions made subsequent to the measurement date (deferred outflows of resources) are recognized as a reduction of the net pension liability in the next fiscal year. The Town did not have any deferred outflows of resources for contributions made subsequent to the measurement date. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		Amount
2016	\$	110,720
2017		110,720
2018		110,720
2019		103,539

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2015:

Valuation date	January 1, 2014			
Actuarial Cost Method	Entry age normal cost method			
Amortization Method	Prior year's total contribution increased by 6.5% for fiscal year 2016 through fiscal year 2020, and thereafter the remaining unfunded liability will be amortized on a 4.0% annual increasing basis; ERI Liability amortized in level payments.			
Remaining Amortization Period	As of July 1, 2014, 5 years remaining for the 2002 ERI liability; 6 years remaining for the 2003 ERI liability; 8 years remaining for the 2010 ERI liability and 21 years for the remaining unfunded liability.			
Asset Valuation Method	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period. Asset value is adjusted, as necessary, to be within 20% of market value.			
Investment rate of return	7.875% net of pension plan investment expense, including inflation (8% in previous valuation)			
Discount Rate	7.875% (previously 8.0%)			
Inflation Rate	4.00%			
Projected Salary Increases	Years of			
(The ultimate values in the previous valuation were	<u>Service</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
4.75% for Group 1 and 5.25% for Group 4)	0	6.00%	6.00%	7.00%
	1	5.50%	5.50%	6.50%
	2	5.50%	5.50%	6.00%
	3	5.25%	5.25%	5.75%
	4	5.25%	5.25%	5.25%
	5	4.75%	4.75%	5.25%
	6	4.75%	4.75%	4.75%
	7	4.50%	4.50%	4.75%
	8	4.50%	4.50%	4.75%
	9+	4.25%	4.50%	4.75%
Cost of Living Adjustments	3.00% of first \$14,000			
Rates of Retirement	Varies based upon age for general employees, police and fire employees.			
Rates of Disability	For general employees, it was assumed that 45% of all disabilities are ordinary (55% are service connected). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are service connected).			
Mortality Rates were based on the tables noted below:				
Healthy:				
Pre-Retirement	RP-2000 Employee Mortality Table projected 22 years with Scale AA (previously, projected 12 years with Scale AA)			
Post-Retirement	RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA (previously, projected 12 years with Scale AA)			
Disabled	RP-2000 Healthy Annuitant Mortality Table set forward three years projected 17 years with Scale AA (previously, set forward 2 years and projected 0 years)			

In performing the actuarial valuation, various assumptions are made regarding mortality, retirement, disability and withdrawal rates as well as salary increases and investment returns. A comparison of the results of the current valuation and the prior valuation is made to determine how closely actual experience relates to expected. The RP-2000 Employee Mortality Table projected 22 years with Scale AA and the RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA were determined to contain provisions appropriate to reasonably reflect future mortality improvement, based on a review of the mortality experience of the plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Domestic Equity	19.60%	6.49%
International developed markets equity	15.60%	7.16%
International emerging markets equity	6.50%	9.46%
Core fixed income	15.30%	1.68%
High yield fixed income	8.30%	4.76%
Real estate	9.90%	4.37%
Commodities	3.90%	4.13%
Short-term government money market	0.00%	1.11%
Hedge fund, GTAA. Risk parity	9.80%	3.60%
Private equity	11.10%	11.04%
	<u>100%</u>	

Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2015 (net of investment expenses) was 0.61%. (7.54% for December 31, 2014). The money-weighted rate of return expresses investment performance, net of pension plan investment expense, is adjusted for the changing amounts actually invested, measured monthly.

Discount Rate

The discount rate used to measure the total pension liability was 7.875% (8.0) % in the previous valuation). The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Middlesex County Retirement System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Middlesex County Retirement System, calculated using the discount rate of 7.875%, as well as what the Middlesex County Retirement System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.875%) or 1-percentage-point higher (8.875%) than the current rate:

	1% Decrease (6.875%)	Discount Rate (7.875%)	1% Increase (8.875%)
Town's proportionate share of the Net Pension Liability	\$10,968,264	\$9,134,041	\$7,572,078

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Middlesex County Retirement System financial report. The System issues a stand-alone financial report is available that can be obtained through the System's website at: <http://middlesexretirement.org/wp-content/uploads/2016/09/MCRS-Final-Audit-Report-12-31-15-Financial-Statements-and-GASB-67-68.pdf>

B. Other Postemployment Benefits (OPEB) Disclosures – GASB 43 and 45

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”. These statements require the Town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis. Certain information that is required to be disclosed by GASB 43 and 45, is noted below. In addition, certain other Required Supplementary Information (RSI), required by GASB 43 and 45, is presented following the notes to the financial statements.

- a. **Plan Description.** In addition to providing pension benefits, the Town provides for a portion of health insurance benefits for eligible plan members. Group 1 employees hired before April 2, 2012, are eligible for OPEB benefits at age 55 with 10 years creditable service or any age with 20 years of creditable service. Group 1 employees hired after April 1, 2012, are eligible at age 60 with 10 years of creditable service. Group 4 employees hired before April 2, 2012, are eligible for OPEB benefits at age 55 with 10 years creditable service or any age with 20 years of creditable service. Group 4 employees hired after April 1, 2012, are eligible at age 55 with 10 years of creditable service. Currently there are approximately 40 active employees and 34 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.

Effective July 1, 2011, employees of the Town of Shirley School System became part of a separate regional school district. As a result, the school employees are not included in the plan membership.

- b. **Funding Policy.** The Town pays 50% of the total premiums for health insurance and 50% of the premiums for a \$2,000 life insurance policy for retirees and their spouses. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town may be amended from time to time.

- c. **Annual OPEB Cost and OPEB Obligation.** The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the Town, an amount that has been actuarially determined in accordance with the parameters of GASB 43 and 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the fiscal year ended June 30, 2016, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$304,116
Interest on Net OPEB Obligation	70,647
Adjustment to Annual Required Contribution	(58,873)
Annual OPEB Cost (Expense)	<u>315,890</u>
Contributions Made	<u>(215,200)</u>
Increase in Net OPEB Obligation	100,690
Net OPEB Obligation (NOO)- Beginning of Year	1,766,185
Net OPEB Obligation (NOO)- End of Year	<u><u>\$1,866,875</u></u>

The Town's annual required contribution, the percentage of the annual required contributions contributed to the plan and the net OPEB obligation for recent years are as follows:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual</u> <u>Required</u> <u>Contribution (ARC)</u>	<u>Percentage of</u> <u>ARC</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2014	\$284,029	62%	\$1,650,470
2015	\$294,034	64%	\$1,766,185
2016	\$304,116	71%	\$1,866,875

- d. **Funded Status and Funding Progress.** As of July 1, 2013, the most recent actuarial valuation date, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$4,182,196, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$4,182,196. The decrease in the liability from the prior valuation related to the regionalization of the School System. The actuarial value of the assets as a percentage of the Actuarial Accrued Liability (funded ratio) was 0.0%. The covered payroll as of the valuation date was \$2,019,159 and the UAAL as a percentage of the covered payroll was 207.1%. **Subsequent to the most recent valuation date, the Town made contributions to and had earnings in the OPEB trust. The balance in the OPEB trust as of June 30, 2016, was \$20,704. The plan assets are recorded and reported in the Town's fiduciary fund financial statements.**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements,

presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

- e. **Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members). The projections consider the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0% (same as prior valuation) investment rate of return and an annual healthcare cost trend rate of 7% initially, graded down to an ultimate rate of 5% in year five (the prior study began with 10% and graded down to 5%). The actuarial value of assets is determined using market value. The UAAL is being amortized over a thirty year open amortization period.

C. Solid Waste Landfill Closure and Postclosure Care Costs

State and federal regulations require that solid waste landfill closures meet certain standards. Generally accepted accounting principles require recognition of a liability for closure and postclosure costs based on the landfill capacity used to date. The landfill capacity used to date is 100%. Closure date of the landfill was December 31, 1998. The Town estimated the future landfill postclosure care cost and it is disclosed in the government wide financial statements. The potential exists for revisions to the estimate due to inflation, new technology or changes in applicable laws and regulations.

D. Subsequent Year Authorizations

On April 23, 2016 and November 19, 2016, the Town adopted a fiscal 2017 operating and capital budget. Fiscal 2017 budgetary amounts will be financed by the following sources:

2017 Property Taxes, State Aid	
and Non-Property Tax Revenue	\$ 12,766,908
Enterprise Fund Estimated Revenues	713,704
Enterprise Fund Retained Earnings	392,750
Enterprise Fund Betterment Reserves	888,755
Other Available Funds	25,062
General Fund Restricted Fund Balance	32,356
General Fund Committed Fund Balance	88,550
General Fund Assigned Fund Balance	466,530
General Fund Unassigned Fund Balance	405,848
Total	<u>\$ 15,780,463</u>

E. Significant Commitments and Contingencies
Encumbrances

Encumbrances for open purchase are reported as Assigned Fund Balance unless the resources have already been restricted, committed or assigned for another purpose. The Town did not have any open purchase orders at June 30, 2016.

Contingencies

The Town has threatened and pending litigation. Management does not believe that the results of the litigation will materially affect the Town's financial position.

F. Implementation of New GASB Pronouncements

During fiscal year 2016, the following GASB pronouncements were implemented:

- The GASB issued Statement No. 72 *Fair Value Measurement and Application*. The standard created a hierarchy of the valuation methods used in determining the fair value of investments. The implementation of this pronouncement required new disclosures related to the Town's investments.
- The GASB issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No 79, *Certain External Investment Pools and Pool Participants*. The implementation of this pronouncement did not impact the financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No. 77, *Tax Abatement Disclosures*, which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No 81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* which is required to be implemented in fiscal year 2018.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements. Management's current assessment is that GASB Statements #74 & 75 will have a significant impact on the Town's basic financial statements by recognizing the entire actuarially accrued liability and expense, related to the Town's Other Post-Employment Benefits.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Shirley, Massachusetts
Required Supplementary Information
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
June 30, 2016

	Budgeted Amounts		Actual	Variance with
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Property Taxes	\$ 9,464,482	\$ 9,843,690	\$ 9,791,643	\$ (52,047)
Tax Liens	-	-	43,845	43,845
Excises	720,000	720,000	827,771	107,771
Penalties and Interest	60,000	60,000	62,338	2,338
Licenses and Permits	100,000	100,000	296,479	196,479
Fees and Other Departmental	110,100	110,100	140,602	30,502
Intergovernmental	1,381,565	1,381,565	1,688,965	307,400
Fines and Forfeits	5,000	5,000	10,282	5,282
Earnings on Investments	5,000	5,000	4,798	(202)
In Lieu of Taxes	17,500	17,500	18,035	535
Miscellaneous	19,500	19,500	36,313	16,813
Total Revenues	<u>11,883,147</u>	<u>12,262,355</u>	<u>12,921,071</u>	<u>658,716</u>
<u>Expenditures</u>				
Current:				
General Government	1,103,794	1,040,887	973,118	67,769
Public Safety	1,450,841	1,663,922	1,662,700	1,222
Education	7,292,322	7,455,806	7,455,806	-
Highway and Public Works	531,108	550,959	543,769	7,190
Health and Human Services	173,188	167,288	157,951	9,337
Culture and Recreation	220,070	222,670	221,732	938
Intergovernmental	60,195	60,195	60,195	-
Employee Benefits	1,342,797	1,484,757	1,439,184	45,573
Debt Service	623,273	613,273	612,274	999
Total Expenditures	<u>12,797,588</u>	<u>13,259,757</u>	<u>13,126,729</u>	<u>133,028</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(914,441)</u>	<u>(997,402)</u>	<u>(205,658)</u>	<u>791,744</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	843,751	843,751	861,546	17,795
Transfers Out	-	(313,803)	(313,803)	-
Budgetary Fund Balance	70,690	467,454	467,454	-
Total Other Financing Sources (Uses)	<u>914,441</u>	<u>997,402</u>	<u>1,015,197</u>	<u>17,795</u>
Excess (Deficiency) of Revenues and Other Financing Sources (Uses) Over Expenditures/ Use of Prior Year Budgetary Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 809,539</u>	<u>\$ 809,539</u>

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of the Town of Shirley, Massachusetts' Proportionate Share of the Net Pension Liability
Middlesex County Retirement System
Last Ten Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Town's proportionate share of net pension liability (asset) (%)	0.708055%	0.711686%	<i>(Historical information prior to implementation of GASB 67/68 is not required)</i>							
Town's proportionate share of net pension liability (asset) (\$)	9,134,041	8,459,600								
Town's covered-employee payroll	2,017,558	1,939,960								
Town's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	452.73%	436.07%								
Plan fiduciary net position as a percentage of the pension liability	46.13%	47.65%								

** The amounts presented for each fiscal year were determined as of December 31.

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of the Town of Shirley, Massachusetts' Contributions
Middlesex County Retirement System
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 710,468	\$ 649,803	<i>(Historical information prior to implementation of GASB 67/68 is not required)</i>							
Contributions in relation to the contractually required contribution	<u>(710,468)</u>	<u>(649,803)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	2,017,558	1,939,960								
Contributions as a percentage of covered-employee payroll	35.21%	33.50%								

See Notes to the Required Supplementary Information

Town of Shirley, Massachusetts
Required Supplementary Information - GASB 45
Schedule of Funding Progress & Employer's Contributions
Fiscal Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
July 1, 2013	\$0	\$4,182,196	\$4,182,196	0%	\$2,019,159	207.1%
July 1, 2010	\$0	\$5,736,603	\$5,736,603	0%	\$1,802,583	318.2%
July 1, 2007	\$0	\$5,922,000	\$5,922,000	0%	\$8,010,000	73.9%

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Schedule of Employer's Contributions

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
2014	\$284,029	62%	\$1,650,470
2015	\$294,034	64%	\$1,766,185
2016	\$304,116	71%	\$1,866,875

See Notes to the Required Supplementary Information

Town of Shirley, Massachusetts
Required Supplementary Information - GASB 45
Valuation Details
Fiscal Year Ended June 30, 2016

Valuation Date	July 1, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	30 years on an open amortization period increasing at 4.5% per year

Actuarial Assumptions:

Investment Rate of Return	4% pay-as-you-go (same as prior valuation).
Medical/Drug Cost Trend Rate	7.0% grading down by .5% to 5.0% ultimate (previous valuation - 10.0% grading down by 1.0% to 5.0% ultimate)

Plan Membership:

Current retirees, beneficiaries, and dependents	34
Current active members	<u>40</u>
Total	<u>74</u>

The Shirley School System became a separate regionalized district effective July 1, 2011.
As a result the employees of the District are not included as members of the Town's
employee benefit plan.

See Notes to the Required Supplementary Information

Town of Shirley, Massachusetts
Notes to the Required Supplementary Information
June 30, 2016

(A) Budgetary Information

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January and February of each year. The Selectmen and Finance Committee have until April/May, which is when the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations.

(B) Pension Plans

a. Plan Description

The Town provides pension benefits to eligible employees by contributing to the Middlesex County Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex County Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The Town is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex County Retirement System issues a stand-alone financial report that is available to the public at:

<http://middlesexretirement.org/wp-content/uploads/2016/09/MCRS-Final-Audit-Report-12-31-15-Financial-Statements-and-GASB-67-68.pdf> or by writing to the Middlesex County Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

b. Funding Plan

Active members of the Middlesex County Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members are determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Middlesex County Retirement System with the approval of the Public Employee Retirement Administration Commission.

c. Changes in Benefit Terms

Chapter 176 of the Acts of 2011 was incorporated in this valuation, which changes many of the benefit features for members hired on or after April 2, 2012. In addition, the COLA base was increased to \$15,000 effective July 1, 2014.

d. Change in Assumptions

The following changes were effective January 1, 2014:

- The actuarial cost method was changed to better reflect the impact of the plan changes effective for employees hired on or after April 2, 2012.
- The pre-retirement mortality assumption was changed from the RP-2000 Employee Mortality Table projected 12 years with Scale AA to the RP-2000 Employee Mortality Table projected 22 years with Scale AA.
- The mortality assumption for non-disabled retirees was changed from the RP-2000 Healthy Annuitant Mortality Table projected 12 years with Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA.
- The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table set forward two years to the RP-2000 Healthy Annuitant Mortality Table set forward three years projected 17 years with Scale AA.
- The investment return assumption was lowered from 8.00% to 7.875%.
- The salary increase assumption was changed from level rates of 4.75% per year for Group 1 and Group 2 members and 5.25% per year for Group 4 members, including an allowance for inflation of 4.5% per year, to rates based on years of service with ultimate rates of 4.25% per year for Group 1 members, 4.5% per year for Group 2 members and 4.75% per year for Group 4 members, including an allowance for inflation of 4.0% per year.
- The assumed retirement age for inactive vested participants was changed from age 65 to age 60 for Group 1 and 2 members and remained the same at age 55 for Group 4 members hired prior to April 2, 2012. For participants hired April 2, 2012 or later, the assumption is 60 for Group 1 members, 55 for Group 2 members and 50 for Group 4 members.
- The administrative expense assumption was increased from \$3,100,000 for calendar 2012 to \$3,400,000 for calendar 2014.

f. Schedule of Town's Proportionate Share of the Net Pension Liability - Middlesex County Retirement System

The schedule details the Town's percentage of the collective net pension liability, the proportionate amount of the collective net pension liability, the Town's covered-employee payroll, the Town's proportionate share of the collective net pension liability as a percentage of the Town's covered-employee payroll and the plans fiduciary net position as a percentage of the total pension liability. As more information becomes available, this will be a ten year schedule.

g. Schedule of the Town's Contributions

The schedule details the Town's contractually required contributions, the contributions made by the Town, the deficiency/(excess) of contributions made by the Town, the Town's covered-employee payroll and the Town's contributions as a percentage of covered-employee payroll. As more information becomes available, this will be a ten year schedule.

(C) Other Postemployment Benefits (OPEB) Disclosures – GASB 43 and 45

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”. These statements require the Town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis.

- a. **Plan Description.** In addition to providing pension benefits, the Town provides for a portion of health insurance benefits for eligible plan members. Group 1 employees hired before April 2, 2012, are eligible for OPEB benefits at age 55 with 10 years creditable service or any age with 20 years of creditable service. Group 1 employees hired after April 1, 2012, are eligible at age 60 with 10 years of creditable service. Group 4 employees hired before April 2, 2012, are eligible for OPEB benefits at age 55 with 10 years creditable service or any age with 20 years of creditable service. Group 4 employees hired after April 1, 2012, are eligible at age 55 with 10 years of creditable service.

Effective July 1, 2011, the employees of the Town of Shirley School System became part of a separate regional school district. As a result, they are not included in the plan membership.

- b. **Funding Policy.** The Town pays 50% of the total premiums for health insurance and 50% of the premiums for a \$2,000 life insurance policy for retirees and their spouses. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town may be amended from time to time.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Selectmen
Town of Shirley
7 Keady Way
Shirley, MA 01464

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Town of Shirley, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Shirley's basic financial statements, and have issued our report thereon dated May 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Shirley's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Shirley's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Shirley's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Shirley's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
May 12, 2017